

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
DECEMBER 31, 2017 AND 2016

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NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2017 and 2016

Our discussion and analysis of the financial performance of Neosho Memorial Regional Medical Center provides a narrative overview of the Medical Center's financial activities for the years ended December 31, 2017 and 2016. Please read it in conjunction with the accompanying financial statements.

Financial highlights

The Medical Center's net position decreased by \$2,086,167 or 5.9 percent in 2017 and increased by \$1,206,284 or 3.5 percent in 2016.

The Medical Center reported operating loss of \$2,814,284 in 2017, and operating income of \$903,595 in 2016, and \$2,234,268 in 2015.

Using these financial statements

The Medical Center's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities and resources of the Medical Center, and the Neosho Memorial Regional Medical Center Foundation, Inc., The Foundation of Neosho Memorial Regional Medical Center, and The Green Living Foundation, Inc., component units of the Medical Center.

One of the most important questions asked about the Medical Center's finances is, "Is the Medical Center as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Medical Center's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Medical Center's net position and changes in them. The Medical Center's net position - the difference between assets and liabilities - may be thought of as one way to measure the financial health, or financial position. Over time, increases or decreases in the Medical Center's net position is one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in the Medical Center's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Medical Center.

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2017 and 2016

Assets, liabilities, and net position

Table 1 below summarizes the Medical Center's statements of net position for the latest three calendar years.

Table 1: Assets, Liabilities, and Net Position

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets			
Current assets	\$ 25,656,213	\$ 26,033,969	\$ 26,468,685
Capital assets, net	38,699,211	37,374,675	29,561,590
Other noncurrent assets	<u>407,177</u>	<u>2,491,820</u>	<u>688,990</u>
Total assets	<u>64,762,601</u>	<u>65,900,464</u>	<u>56,719,265</u>
Current liabilities	7,763,085	7,866,928	5,726,296
Long-term liabilities	<u>23,537,904</u>	<u>22,485,757</u>	<u>16,651,474</u>
Total liabilities	<u>31,300,989</u>	<u>30,352,685</u>	<u>22,377,770</u>
Total net position	<u>\$ 33,461,612</u>	<u>\$ 35,547,779</u>	<u>\$ 34,341,495</u>

Cash and accounts receivable are the two most significant components of current assets. Total days cash expenses on hand is 102 days in 2017 as compared to 114 days in 2016, and 154 days in 2015. The Medical Center generated cash flows from operations of \$4,009,021 and \$2,708,716 during 2017 and 2016. These cash flows are used to fund the Medical Center's debt service requirements and capital acquisitions. Cash is also affected by timing of collection of accounts receivable. Net accounts receivable at December 31, 2017, 2016, and 2015, were \$7,704,866, \$8,220,004, and \$6,182,295 representing 55, 60, and 48 days of net patient service revenue in net accounts receivable. The 2016 increase in accounts receivable was partially related to the implementation of a new accounting system which caused delays in billing. Assets limited as to use designated for capital acquisitions decreased by \$1,941,509 in 2017 as compared with 2016 and increased by \$1,504,205 in 2016 as compared with 2015. The accompanying cash flow statement provides additional details as to the change in cash balances for 2017 and 2016.

The Medical Center's additions to capital assets were \$6,614,402 in 2017 as compared with \$12,087,693 in 2016 and \$6,996,770 in 2015. Net capital assets are also impacted by annual depreciation provisions. The Medical Center completed a multi-year addition and renovation of its facilities in 2017.

Net position or equity, decreased by 2.6 percent from 2015 to 2017. This decrease is primarily from our operating results which are discussed below in more detail.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2017 and 2016

Operating results and changes in net position

The Medical Center's net position decreased by \$2,086,167 or 5.9 percent in 2017 and increased by \$1,206,284 or 3.5 percent in 2016, as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues			
Net patient service revenue	\$ 51,559,977	\$ 50,376,306	\$ 46,911,186
Other operating revenue	847,594	886,913	740,513
Electronic health record incentive revenue	<u>11,568</u>	<u>1,763,556</u>	<u>105,424</u>
Total operating revenues	<u>52,419,139</u>	<u>53,026,775</u>	<u>47,757,123</u>
Operating expenses			
Salaries and benefits	29,305,092	26,850,107	23,862,957
Supplies and other	20,644,423	20,998,463	17,901,979
Depreciation and amortization	<u>5,283,908</u>	<u>4,274,610</u>	<u>3,757,919</u>
Total operating expenses	<u>55,233,423</u>	<u>52,123,180</u>	<u>45,522,855</u>
Operating income (loss)	(2,814,284)	903,595	2,234,268
Nonoperating revenues (expenses)	476,174	(34,091)	(367,631)
Capital grants and contributions	<u>251,943</u>	<u>336,780</u>	<u>393,687</u>
Change in net position	<u>\$ (2,086,167)</u>	<u>\$ 1,206,284</u>	<u>\$ 2,260,324</u>

The first component of the overall change in the Medical Center's net position is its operating income (loss) - generally the difference between net patient service revenues and other operating revenues and the expenses incurred to perform those services. The Medical Center's operating margin was (5.4) percent in 2017, decreasing from 1.7 percent in 2016.

The change in net patient service revenue is affected by changes in charges to patients, payment rates by third-party payors, patient volumes, the type of services provided, and other special payments. Net patient service revenue is also affected by changes in expenses, as a significant portion of the revenues are associated with services provided to Medicare beneficiaries whose services are reimbursed based on cost reimbursement principles.

The Medical Center's net patient service revenues increased by 2.3 percent in 2017 as compared to a 7.4 percent increase in 2016. Our outpatient service revenues as a percentage of total revenues increased again in 2017 as compared to the previous year. In 2017, we experienced a decline in inpatient routine, ICU, and swing-bed days of 870 days, or 12.5 percent. As a critical access hospital, we are limited to having 25 inpatients admitted to our Medical Center at any one time. We operate our Medical Center near this limit often and do not anticipate growing our inpatient services in the future. We are focused on growing outpatient services which is consistent with national trends. We expect that this trend will continue in our service area.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Years ended December 31, 2017 and 2016

The Medical Center generated 44 percent of its net revenue in 2017 and 46 percent in 2016 from the Medicare program. The Medicaid program represented 7 percent and 4 percent of net revenue in 2017 and 2016.

The Medical Center also meets the eligibility requirements for the State of Kansas Medicaid DSH program which awards payments to hospitals based on the level of uncompensated care provided by hospitals to uninsured or Medicaid patients. The payments through Medicaid DSH are disbursed quarterly to the Medical Center. Net patient service revenues recognized from this program were \$909,472, \$918,848, and \$937,600 in 2017, 2016, and 2015, respectively.

Other significant items affecting net patient service revenues are the level of charity care and bad debts incurred by the Medical Center. These amounts are deducted from gross revenues along with third-party contractual adjustments to arrive at net patient service revenues. We are focused on identifying charity care which requires additional resources to document eligibility under the Medical Center's policies. For the years ended 2017, 2016, and 2015, the Medical Center's charity care and provision for bad debts were as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Provision for bad debts	\$ 6,127,695	\$ 5,732,254	\$ 5,115,947
Charity care	1,987,507	2,507,734	1,706,054
Uninsured discounts	<u>40,548</u>	<u>32,335</u>	<u>58,252</u>
	<u>\$ 8,155,750</u>	<u>\$ 8,272,323</u>	<u>\$ 6,880,253</u>

These amounts represent 5.7, 5.9, and 5.3 percent of gross patient service revenues for the respective years ended 2017, 2016, and 2015. These percentages are affected by the level of uninsured or underinsured patients seeking care in our facility.

The Medical Center recognized electronic health record incentive revenues of \$11,568 and \$1,763,556 from both the Medicare and Medicaid programs in 2017 and 2016, respectively. These payments relate to the cost of implementing electronic health record system software and certifying the use of that technology as a meaningful user.

Employee salaries and wages increased by \$2,041,737 or 9.3 percent in 2017 and increased by \$2,536,664 or 13.1 percent during 2016. The change in salaries is driven by two factors which are the change in full-time equivalent employees (FTEs) and the average increase in employee hourly wages. The Medical Center employed an average of 388 FTEs during 2017, an increase of 23 from 2016. FTEs for 2016 increased by 32 from 2015. In 2016, the Medical Center acquired a rural health clinic, and in 2017, a dermatology clinic was opened.

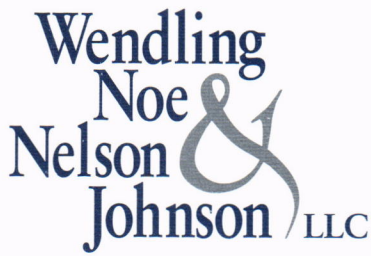
Employee benefit costs as a percentage of salary and wage expense was 22.5 percent, 22.8 percent, and 23.5 percent in 2017, 2016, and 2015, respectively.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2017 and 2016

Supplies and other expenses decreased by \$354,040 in 2017, after increasing by \$3,096,484, and \$1,247,973 in 2016 and 2015, respectively. In 2017, the Medical Center experienced a decrease in ER contract service expense as these providers were replaced with employees which impacted salaries.

Depreciation and interest expenses combined increased by \$1,227,361 in 2017 as compared to a \$535,114 increase in 2016. In 2017, we experienced higher depreciation costs as the result of placing capital projects into service. Interest expense increased due to an increase in average outstanding debt and lower capitalized interest in 2017 as compared to 2016.

This financial report is designed to provide a general overview of the Medical Center's finances and to discuss the significant changes in our financial statements. If you have any questions about the report or need additional financial information, contact the Administration Office at Neosho Memorial Regional Medical Center, 629 S. Plummer, Chanute, Kansas 66720.



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Neosho Memorial Regional Medical Center

We have audited the accompanying financial statements of Neosho Memorial Regional Medical Center, a component unit of Neosho County, Kansas, as of and for the years ended December 31, 2017 and 2016, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of Neosho Memorial Regional Medical Center as of December 31, 2017 and 2016, and the changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 1 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Wendell Noe Nelson & Johnson 22c
Topeka, Kansas
May 7, 2018

FINANCIAL STATEMENTS

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER

STATEMENTS OF NET POSITION

December 31,

ASSETS

	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 14,458,344	\$ 13,196,356
Investments		400,581
Assets limited as to use	397,275	398,458
Patient accounts receivable, net of estimated uncollectibles of \$3,152,475 in 2017 and \$3,310,245 in 2016	7,704,866	8,220,004
Inventories	998,988	1,026,561
Prepaid expenses	667,856	466,985
Other receivables	8,457	1,786,171
Estimated third-party payor settlements	<u>1,420,427</u>	<u>538,853</u>
Total current assets	<u>25,656,213</u>	<u>26,033,969</u>
ASSETS LIMITED AS TO USE		
Internally designated for capital acquisitions	16	1,941,525
Under bond indenture agreements - held by trustee	397,275	398,458
Donor-imposed restrictions	77,853	267,085
Other receivables	<u>329,308</u>	<u>224,847</u>
	804,452	2,831,915
Less amount required to meet current obligations	<u>397,275</u>	<u>398,458</u>
	<u>407,177</u>	<u>2,433,457</u>
CAPITAL ASSETS, NET	<u>38,699,211</u>	<u>37,374,675</u>
REAL ESTATE INVESTMENTS, AT COST		<u>58,363</u>
Total assets	<u>\$ 64,762,601</u>	<u>\$ 65,900,464</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET POSITION

	<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES		
Current maturities of long-term debt and capital leases	\$ 1,733,700	\$ 923,676
Line of credit	136,504	136,504
Accounts payable and accrued expenses	2,237,655	2,267,886
Construction costs and capital assets payable	441,152	1,483,645
Salaries, wages, and payroll taxes payable	1,117,151	1,067,944
Accrued vacation pay	1,859,162	1,746,617
Interest payable	<u>237,761</u>	<u>240,656</u>
Total current liabilities	<u>7,763,085</u>	<u>7,866,928</u>
LONG-TERM LIABILITIES		
Long-term debt and capital leases, net of current maturities	22,852,504	21,971,127
Refundable and nonrefundable fees	<u>685,400</u>	<u>514,630</u>
Total long-term liabilities	<u>23,537,904</u>	<u>22,485,757</u>
Total liabilities	<u>31,300,989</u>	<u>30,352,685</u>
NET POSITION		
Invested in capital assets, net of related debt	13,031,049	12,255,600
Restricted for debt service	397,275	398,458
Component units	808,352	1,078,488
Unrestricted	<u>19,224,936</u>	<u>21,815,233</u>
Total net position	<u>33,461,612</u>	<u>35,547,779</u>
Total liabilities and net position	<u>\$ 64,762,601</u>	<u>\$ 65,900,464</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
Year ended December 31,

	<u>2017</u>	<u>2016</u>
Operating revenues		
Net patient service revenue	\$ 51,559,977	\$ 50,376,306
Other	847,594	886,913
Electronic health records incentive revenue	<u>11,568</u>	<u>1,763,556</u>
Total operating revenues	<u>52,419,139</u>	<u>53,026,775</u>
Operating expenses		
Salaries and wages	23,908,268	21,866,531
Employee benefits	5,396,824	4,983,576
Supplies and other expenses	20,644,423	20,998,463
Depreciation and amortization	<u>5,283,908</u>	<u>4,274,610</u>
Total operating expenses	<u>55,233,423</u>	<u>52,123,180</u>
Operating income (loss)	<u>(2,814,284)</u>	<u>903,595</u>
Nonoperating revenues (expenses)		
Investment income	236,179	231,310
Interest expense	(754,695)	(536,632)
Ambulance subsidy	780,350	294,850
Noncapital grants and contributions	345,535	80,800
Other	<u>(131,195)</u>	<u>(104,419)</u>
Total nonoperating revenues (expenses)	<u>476,174</u>	<u>(34,091)</u>
Revenues over (under) expenses before capital grants and contributions	(2,338,110)	869,504
Capital grants and contributions	<u>251,943</u>	<u>336,780</u>
Change in net position	<u>(2,086,167)</u>	<u>1,206,284</u>
Net position at beginning of year	<u>35,547,779</u>	<u>34,341,495</u>
Net position at end of year	<u>\$ 33,461,612</u>	<u>\$ 35,547,779</u>

The accompanying notes are an integral part of these statements.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER

STATEMENTS OF CASH FLOWS

Year ended December 31,

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 51,364,311	\$ 47,693,815
Payments to or on behalf of employees	(29,143,340)	(26,453,289)
Payments for supplies and services	(20,847,952)	(19,405,748)
Other receipts and payments	<u>2,636,002</u>	<u>873,938</u>
Net cash provided by operating activities	<u>4,009,021</u>	<u>2,708,716</u>
Cash flows from noncapital financing activities		
Ambulance subsidy	780,350	294,850
Noncapital grants and contributions	345,535	80,800
Other nonoperating expenses	<u>(131,195)</u>	<u>(104,419)</u>
Net cash provided by noncapital financing activities	<u>994,690</u>	<u>271,231</u>
Cash flows from capital and related financing activities		
Purchase of property and equipment	(7,540,504)	(12,097,110)
Interest paid on capital related debt	(815,619)	(594,293)
Proceeds from issuance of long-term debt	3,429,014	7,481,843
Principal payments on long-term debt obligations	(1,737,613)	(918,372)
Capital grants and contributions net of other related expenses	<u>257,902</u>	<u>336,780</u>
Net cash used for capital and related financing activities	<u>(6,406,820)</u>	<u>(5,791,152)</u>
Cash flows from investing activities		
Change in assets limited as to use	85,954	(292,656)
Change in investments	400,581	157,532
Interest received	<u>237,053</u>	<u>230,399</u>
Net cash provided by investing activities	<u>723,588</u>	<u>95,275</u>
Change in cash and cash equivalents	(679,521)	(2,715,930)
Cash and cash equivalents at beginning of year	<u>15,137,881</u>	<u>17,853,811</u>
Cash and cash equivalents at end of year	<u>\$ 14,458,360</u>	<u>\$ 15,137,881</u>

The accompanying notes are an integral part of these statements.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
STATEMENTS OF CASH FLOWS - CONTINUED
Year ended December 31,

	<u>2017</u>	<u>2016</u>
Reconciliation of cash and cash equivalents to statements of financial position		
Cash and cash equivalents in current assets	\$ 14,458,344	\$ 13,196,356
Cash internally designated by the board for capital asset acquisitions	<u>16</u>	<u>1,941,525</u>
	<u>\$ 14,458,360</u>	<u>\$ 15,137,881</u>
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ (2,814,284)	\$ 903,595
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation and amortization	5,283,908	4,274,610
Provision for bad debts	6,127,695	5,732,254
(Increase) decrease in		
Accounts receivable	(5,612,557)	(7,769,963)
Estimated third-party payor settlements	(881,574)	(799,528)
Inventories	27,573	171,721
Prepaid expenses	(200,871)	130,966
Other current assets	1,776,840	(1,776,163)
Increase (decrease) in		
Accounts payable and accrued expenses	(30,231)	1,289,660
Salaries and payroll taxes payable	49,207	351,739
Accrued vacation	112,545	45,079
Refundable and nonrefundable fees	<u>170,770</u>	<u>154,746</u>
Net cash provided by operating activities	<u>\$ 4,009,021</u>	<u>\$ 2,708,716</u>

The accompanying notes are an integral part of these statements.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting entity

Neosho Memorial Regional Medical Center (the Medical Center) is owned by Neosho County, Kansas, and operated by the Board of Trustees of Neosho Memorial Regional Medical Center, a seven-member governing board appointed by the governing body of the County. The Medical Center, which was organized in 1950, is a not-for-profit general hospital located in Chanute, Kansas. The Medical Center can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the County. The Medical Center is a component unit of the County.

2. Component units

The Neosho Memorial Regional Medical Center Foundation, Inc. (NMRMC Foundation), is a legally separate 501(c)(3) exempt private foundation operated by a separate board of directors and provides support exclusively to the Medical Center. The Foundation of Neosho Memorial Regional Medical Center, Inc. (Foundation of NMRMC), and The Green Living Foundation, Inc. (GLF), are also legally separate 501(c)(3) corporations with the Medical Center serving as the sole voting member of both the Foundation of NMRMC and GLF. The Foundations are operated exclusively for charitable purposes. The Medical Center includes the above Foundations as component units in the Medical Center's financial statements using the blended method. All significant intercompany accounts and transactions have been eliminated in the accompanying financial statements.

3. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. Basis of accounting

The financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, and liabilities are recognized when the transaction occurs.

5. Cash and cash equivalents

The Medical Center considers all cash and invested cash to be cash equivalents, excluding any amounts included in assets limited as to use under bond indenture agreements held by trustee, assets limited as to use under donor-imposed restrictions, and items classified as investments by the Foundation. This represents an accounting policy change as previously none of the assets limited as to use were considered to be cash equivalents. Comparative financial statements of prior years have been restated to reflect this change. This restatement had no effect on previously reported net position or the change in net position of the Medical Center.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

6. Allowance for doubtful accounts

The Medical Center provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Medical Center estimates this allowance based on the aging of its accounts receivable and applying specific reserve factors for each type of payor.

7. Inventories

Inventories are stated at the lower of cost or market with cost determined on the first-in, first-out method.

8. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes; assets held by a trustee under a bond indenture agreement; and assets whose use is restricted by donors. Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets.

9. Capital assets

Capital assets, including assets recorded as capital leases, are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets which are substantially in conformity with useful lives established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

10. Cost of borrowing

Interest costs (including amortization of bond premium), incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Costs incurred in connection with the issuance of long-term debt are expensed in the period incurred. Original issue premiums and discounts associated with the issuance of long-term debt are amortized using the interest method over the term of the related debt.

11. Accrued vacation pay

The Medical Center employees earn paid time off at varying rates depending on years of service. Paid time off benefits vest to the employee and are paid at the time of termination.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

12. Net position

The net position of the Medical Center is classified into the following components. "Net position invested in capital assets net of related debt" consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Restricted net position" is noncapital related assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Medical Center, including amounts deposited with trustees as required by revenue bond indentures. "Unrestricted net position" is the remaining net position that does not meet the definition of "invested in capital assets net of related debt" or "restricted." Component units net position is related to the Foundations and are under the control of each entity's board.

13. Operating revenues and expenses

The Medical Center's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Medical Center's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs and costs associated with fundraising activities by the component units.

14. Net patient service revenue

Net patient service revenue is reported at established charges with deductions for discounts, charity care, contractual adjustments, and provision for bad debts, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

15. Grants and contributions

From time to time, the Medical Center receives grants and contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

16. Charity care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charity care charges foregone and the estimated cost of providing this care is disclosed in Note C.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

17. Income taxes

The Medical Center is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

18. Subsequent events

The Medical Center has evaluated subsequent events through the date of the independent certified public accountant's report, which is the date the financial statements were available to be issued.

19. Reclassifications

Certain reclassifications, in addition to those described in Note A5, have been made to the 2016 financial statements to conform to the 2017 presentation.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE B - CAPITAL ASSETS

Capital asset additions, retirements, and balances are as follows:

	Balance December 31, 2016	Transfers and additions	Retirements	Balance December 31, 2017
Land	\$ 508,922	\$ 80,384	\$ -	\$ 589,306
Land improvements	1,485,833	406,589		1,892,422
Buildings	27,039,405	4,887,922		31,927,327
Fixed equipment	19,016,320	1,077,870		20,094,190
Major movable equipment	<u>25,821,946</u>	<u>2,404,356</u>	<u>18,894</u>	<u>28,207,408</u>
Totals at historical cost	<u>73,872,426</u>	<u>8,857,121</u>	<u>18,894</u>	<u>82,710,653</u>
Less accumulated depreciation				
Land improvements	819,033	89,447		908,480
Buildings and fixed equipment	20,796,177	2,590,061		23,386,238
Major movable equipment	<u>17,397,709</u>	<u>2,609,218</u>	<u>17,754</u>	<u>19,989,173</u>
	34,859,507	3,568,395	1,140	38,426,762
Projects in progress and minor equipment	<u>2,515,168</u>	<u>(2,242,719)</u>		<u>272,449</u>
Capital assets, net	<u>\$ 37,374,675</u>	<u>\$ 1,325,676</u>	<u>\$ 1,140</u>	<u>\$ 38,699,211</u>

	Balance December 31, 2015	Transfers and additions	Retirements	Balance December 31, 2016
Land	\$ 401,422	\$ 107,500	\$ -	\$ 508,922
Land improvements	1,482,123	3,710		1,485,833
Buildings	18,658,742	8,380,663		27,039,405
Fixed equipment	18,619,567	396,753		19,016,320
Major movable equipment	<u>21,993,744</u>	<u>3,866,054</u>	<u>37,852</u>	<u>25,821,946</u>
Totals at historical cost	<u>61,155,598</u>	<u>12,754,680</u>	<u>37,852</u>	<u>73,872,426</u>
Less accumulated depreciation				
Land improvements	741,125	77,908		819,033
Buildings and fixed equipment	18,846,831	1,949,346		20,796,177
Major movable equipment	<u>15,188,207</u>	<u>2,247,354</u>	<u>37,852</u>	<u>17,397,709</u>
	26,379,435	8,480,072	-	34,859,507
Projects in progress and minor equipment	<u>3,182,155</u>	<u>(666,987)</u>		<u>2,515,168</u>
Capital assets, net	<u>\$ 29,561,590</u>	<u>\$ 7,813,085</u>	<u>\$ -</u>	<u>\$ 37,374,675</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE C - REIMBURSEMENT PROGRAMS

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established charge rates. The amounts reported on the statements of net position as estimated third-party payor settlements consist of the estimated differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - The Medical Center is a critical access hospital for purposes of the Medicare program and is paid for most services rendered to Medicare beneficiaries under various cost reimbursement methodologies. Ambulance and physician services are prospectively paid based on their respective fee schedules. The Medical Center is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits or reviews thereof by the Medicare administrative contractor. The Medical Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Medical Center's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2015.

Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Medical Center receives a hospital-specific add-on percentage to each claim based on previously filed cost reports. All other services rendered to Medicaid beneficiaries are paid at prospective rates determined on either a per diem or a fee-for-service basis and are not subject to retroactive adjustment.

Blue Cross and Blue Shield - Services rendered to patients who are insured by Blue Cross-Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

A summary of gross and net patient service revenue is as follows:

	<u>2017</u>	<u>2016</u>
Gross patient service revenue	\$ 143,405,045	\$ 141,334,105
Deductions from patient service revenue		
Third-party contractual adjustments	(83,397,848)	(82,920,849)
Medicaid DSH payments	909,472	918,848
Other discounts and allowances	(1,200,942)	(683,475)
Charity care	(1,987,507)	(2,507,734)
Uninsured discounts	(40,548)	(32,335)
Provision for bad debts	<u>(6,127,695)</u>	<u>(5,732,254)</u>
Net patient service revenue	<u>\$ 51,559,977</u>	<u>\$ 50,376,306</u>

The Medical Center estimates that the cost of providing charity care, based on overall cost to charge ratios obtained from the Medical Center's cost reports was \$724,000 and \$889,550 for 2017 and 2016, respectively.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE C - REIMBURSEMENT PROGRAMS - Continued

Revenue from the Medicare and Medicaid programs accounted for approximately 44 percent and 7 percent, respectively, of the Medical Center's net patient service revenue during 2017 and 46 percent and 4 percent, respectively, of the Medical Center's net patient service revenue during 2016. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record (EHR) technology. These provisions of ARRA are intended to promote the adoption and meaningful use of interoperable health information technology and qualified EHR technology.

The Medical Center recognizes revenue for EHR incentive payments when it has reasonable assurance that it has demonstrated meaningful use of certified EHR technology for the applicable period and complied with the reporting conditions to receive the payment. The demonstration of meaningful use is based upon meeting a series of objectives and varies between hospital facilities and physician practices and between the Medicare and Medicaid programs. Additionally, meeting the objectives in order to demonstrate meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by Centers for Medicare & Medicaid Services. The Medical Center recognized \$11,568 and \$1,763,556 of revenue for EHR incentive payments from Medicare and Medicaid during 2017 and 2016, respectively. These amounts are included in operating revenues on the statement of operations for the years ended December 31, 2017 and 2016.

NOTE D - ASSETS LIMITED AS TO USE AND INVESTMENTS

Internally designated

The Medical Center's Board of Trustees has designated certain investments to be used for future capital improvements. These assets may be used for other purposes by action of the Board of Trustees. These assets are held in a interest bearing checking account.

Under bond indenture agreement - held by trustee

Assets limited as to use by a bond indenture agreement are held by a trustee and are invested in cash or money market funds and are stated at fair value. These assets relate to the 2014 and the 2015 revenue bond issues (Note G) and are set aside for the repayment of principal and interest on those bonds.

Donor imposed restrictions

Assets limited as to use by donor imposed restrictions are held by the Neosho Memorial Hospital Foundation, Inc., and consist of bank deposits in a money market savings account that will be transferred to the Medical Center for the purchase of capital assets.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE E - INVESTMENTS

Investments are stated at fair value and are summarized as follows:

	<u>2017</u>	<u>2016</u>
Money market mutual funds	\$ -	\$ 400,581
	<u>\$ -</u>	<u>\$ 400,581</u>

Investment income consists of the following:

	<u>2017</u>	<u>2016</u>
Interest on patient accounts	\$ 190,029	\$ 170,167
Interest and dividends	46,150	47,604
Realized and unrealized gains and losses	<u> </u>	<u>13,539</u>
	<u>\$ 236,179</u>	<u>\$ 231,310</u>

NOTE F - FAIR VALUE MEASUREMENTS

The Medical Center categorizes fair value measurements within the fair value hierarchy established under generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are unadjusted quoted prices for identical assets in active markets. Level 2 inputs are significant other observable inputs. Level 3 inputs are unobservable, and supported by little or no market activity.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodology used for assets measured at fair value on a recurring basis:

Money market mutual funds, are valued at unadjusted quoted prices for identical securities in active markets (Level 1 inputs).

The Medical Center has the following recurring fair value measurements at December 31, 2016, included under the caption of investments:

Money market mutual funds \$400,581 which are considered to be Level 1 under the fair value hierarchy.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE G - LONG-TERM DEBT AND CAPITAL LEASES

Long-term debt and capital lease obligations are summarized as follows:

	Outstanding balance	
	<u>2017</u>	<u>2016</u>
3.35 - 4.80% Neosho County, Kansas Hospital Refunding Revenue Bonds, Series 2014 A (Neosho Memorial Regional Medical Center); issued on June 26, 2014, in the original amount of \$8,800,000 term bonds due September 1, 2030, with mandatory annual redemptions beginning September 1, 2023	\$ 8,800,000	\$ 8,800,000
1.0 - 3.0% Neosho County, Kansas Hospital Refunding Revenue Bonds, Series 2014 B (Neosho Memorial Regional Medical Center); issued on June 26, 2014, in the original amount of \$5,975,000 term bonds due serially through September 1, 2018, and term bonds due September 1, 2022, with mandatory annual redemptions beginning September 1, 2019	3,825,000	4,550,000
Neosho County, Kansas Hospital Revenue Bonds, Series 2015 (Neosho Memorial Regional Medical Center); issued on April 15, 2015, funds drawn as expended for projects, current interest rate at 3.35% with mandatory principal payments	10,964,332	8,350,318
Capital lease obligation, interest rate of 2.50%, due in monthly payments of \$18,855 through August 2022, collateralized by leased equipment with an amortized cost of \$0 at December 31, 2017	<u>996,872</u>	<u>1,194,485</u>
	24,586,204	22,894,803
Less current maturities	<u>(1,733,700)</u>	<u>(923,676)</u>
Long-term obligations net of current portion	<u>\$ 22,852,504</u>	<u>\$ 21,971,127</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE G - LONG-TERM DEBT AND CAPITAL LEASES - Continued

The following is a summary of changes in long-term debt and capital lease obligations:

	<u>Capital lease obligations</u>	<u>Hospital revenue bonds</u>	<u>Total long-term obligations</u>
Outstanding at January 1, 2016	\$ 1,387,856	\$15,079,980	\$16,467,836
Long-term debt incurred		7,345,338	7,345,338
Principal payments	<u>(193,371)</u>	<u>(725,000)</u>	<u>(918,371)</u>
Outstanding at December 31, 2016	1,194,485	21,700,318	22,894,803
Long-term debt incurred		3,429,014	3,429,014
Principal payments	<u>(197,613)</u>	<u>(1,540,000)</u>	<u>(1,737,613)</u>
Outstanding at December 31, 2017	<u>\$ 996,872</u>	<u>\$23,589,332</u>	<u>\$24,586,204</u>

On June 26, 2014, the County issued Hospital Refunding Revenue Bonds, Series 2014 A and B, in the principal amount \$14,775,000, to refund the remaining portion of the Series 2006 A and B bonds and to pay costs related to issuance of the 2014 bonds.

On April 15, 2015, the County issued Hospital Revenue Bonds, Series 2015 (the 2015 bonds) in the principal amount not to exceed \$12,250,000 on behalf of the Medical Center pursuant to the supplemental bond trust indenture. The proceeds of the 2015 bonds are being drawn as needed to fund the (1) renovation and expansion of the current hospital facility, and (2) acquisition of certain equipment for the hospital facility.

Under the terms of the bond indentures, the Medical Center is required to maintain certain deposits with a trustee. Such deposits are for the repayment of principal and interest as they come due as well as for the maintenance of required bond reserve accounts. These amounts are included with assets limited as to use in the financial statements. The indenture agreement also includes certain restrictive covenants relating to the acquisition and disposition of property, incurrence of additional indebtedness, and level of fees and rates charged.

Scheduled annual debt service requirements for the Hospital Revenue Bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,530,000	\$ 787,894	\$ 2,317,894
2019	1,565,000	786,784	2,351,784
2020	1,610,000	743,916	2,353,916
2021	1,655,000	697,147	2,352,147
2022	1,705,000	646,536	2,351,536
2023 to 2027	9,440,000	2,323,461	11,763,461
2028 to 2031	<u>6,084,332</u>	<u>496,426</u>	<u>6,580,758</u>
	<u>\$ 23,589,332</u>	<u>\$ 6,482,164</u>	<u>\$ 30,071,496</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE G - LONG-TERM DEBT AND CAPITAL LEASES - Continued

The following is a schedule of future minimum lease payments under capital leases as of December 31, 2017:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 203,700	\$ 22,563	\$ 226,263
2019	208,852	17,411	226,263
2020	214,133	12,130	226,263
2021	219,548	6,715	226,263
2022	<u>150,639</u>	<u>1,041</u>	<u>151,680</u>
Total minimum lease payments	<u>\$ 996,872</u>	<u>\$ 59,860</u>	1,056,732
Less amounts representing interest			<u>59,860</u>
Present value of net minimum lease payments			<u>\$ 996,872</u>

Total interest costs are summarized as follows:

	<u>2017</u>	<u>2016</u>
Total interest incurred	\$ 812,724	\$ 677,141
Less interest capitalized	<u>(58,029)</u>	<u>(140,509)</u>
Interest expense	<u>\$ 754,695</u>	<u>\$ 536,632</u>

Rental expense under operating leases totaled \$241,581 in 2017 and \$219,994 in 2016.

NOTE H - LINE OF CREDIT

The Green Living Foundation, Inc., has a line of credit arrangement with a local bank to finance construction of independent living units. Under the terms of the arrangement, GLF may draw up to \$137,000. At December 31, 2017, GLF had drawn \$136,504 under this arrangement. Interest on the line accrues at 3.54 percent per annum and principal and interest are due on August 5, 2018.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE I - REFUNDABLE AND NONREFUNDABLE FEES

The Green Living Foundation, Inc., has entered into contracts with residents to provide housing and other services under an independent living arrangement for the Foundation Homes (Community). Residents are required to pay a Lifetime Deposit in order to occupy a unit. The Lifetime Deposit is 75 percent refundable and the remaining 25 percent is nonrefundable. The nonrefundable fee is amortized over the remaining life expectancy of the resident. The Lifetime Deposit is held by GLF and used for the purpose of construction, financing, operational costs, capital repairs, improvements, future refunds for the Community, and for any reserve funds. Refundable fees are summarized as follows:

	<u>2017</u>	<u>2016</u>
Beginning of period	\$ 400,791	\$ 269,913
Advance payments received	<u>162,454</u>	<u>130,878</u>
	<u>\$ 563,245</u>	<u>\$ 400,791</u>

Nonrefundable fees are summarized as follows:

	<u>2017</u>	<u>2016</u>
Beginning of period	\$ 113,839	\$ 89,971
Payments received	54,151	43,626
Amortization	<u>(45,835)</u>	<u>(19,758)</u>
	<u>\$ 122,155</u>	<u>\$ 113,839</u>

NOTE J - RELATED PARTY TRANSACTIONS

The Medical Center contracts for management services, services of certain management personnel, and other services with QHR. Under the agreement, QHR is responsible for daily management and administration of the Medical Center, with ultimate control over the assets and operations of the Medical Center retained by the Medical Center's board. Amounts paid to QHR during 2017 and 2016, for management services were \$295,259 and \$295,260, respectively. The Medical Center also reimbursed QHR for salaries, employee benefits, and expenses of the chief executive officer and the chief financial officer.

The County provides annual support to the Medical Center for the operation of the ambulance department. The County transferred \$774,047 in 2017 and \$294,850 in 2016 for ambulance operations.

NOTE K - RETIREMENT PLAN

The Medical Center sponsors a defined contribution plan (Plan) as authorized by Kansas statutes. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account and the returns earned on investments of those contributions.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE K - RETIREMENT PLAN - Continued

The Plan covers substantially all employees of the Medical Center. Employees are eligible to make contributions immediately to the Plan. To become eligible for contributions made by the Medical Center, the employee must have a year of service, defined as 1,000 hours. Employee contributions vest immediately and contributions made by the Medical Center vest over six years.

The Medical Center provides for a discretionary match which is determined annually by the Board of Trustees. For the years ended December 31, 2017 and 2016, the Medical Center matched 100 percent of each eligible employee's contribution up to 4 percent of the participant's compensation.

The payroll for employees covered by the Plan for the years ended December 31, 2017 and 2016, was \$16,116,449 and \$15,813,514, respectively. The total payroll was \$24,002,497 in 2017 and \$21,866,531 in 2016. Total contributions to the Plan in 2017 were \$1,570,909 which consisted of \$990,228 of employee contributions and \$580,681 of employer matching contributions. Total contributions to the Plan in 2016 were \$1,469,749 which consisted of \$940,747 of employee contributions and \$529,002 of employer matching contributions.

No pension provision changes occurred during the year that affected the required contributions to be made by the Medical Center or its employees. The Plan held no securities of the Medical Center or other related parties during the year or as of the close of the year.

Total employer contributions in 2017 were 3.6 percent of covered payroll and in 2016 were 3.4 percent of covered payroll. Total employee contributions in 2017 were 6.1 percent of covered payroll and in 2016 were 5.9 percent of covered payroll.

NOTE L - DEPOSITS AND INVESTMENTS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Medical Center with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury bills and notes, and the State Treasurer's investment pool. Also, statutes require that financial institutions pledge securities with a market value equal to total deposits in excess of F.D.I.C. coverage at any given time and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, or the Federal Home Loan Bank.

The carrying amount of deposits with financial institutions was \$14,533,198 and the bank balance was \$14,731,834 at December 31, 2017. The bank deposits are categorized as follows:

Amount insured by the F.D.I.C., or collateralized with securities held by the Medical Center in its name	\$ 1,612,912
Uncollateralized (collateralized with securities held in safekeeping under joint custody receipt by an authorized depository other than the pledging financial institution's trust department, but not in the Medical Center's name)	13,032,700
Uncollateralized and unsecured	<u>86,222</u>
	<u>\$ 14,731,834</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE M - COMMITMENTS AND CONTINGENCIES

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Medical Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Medical Center purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

In 2016, The Medical Center entered into an agreement to install new software to operate a new accounting and electronic health record system. Outstanding commitments for ongoing operation and maintenance of this system are as follows:

2018	\$ 586,220
2019	586,220
2020	586,220
2021	586,220
2022	<u>146,576</u>
	<u>\$ 2,491,456</u>

NOTE N - CONCENTRATION OF CREDIT RISK

The Medical Center is located in Chanute, Kansas. The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

	<u>2017</u>	<u>2016</u>
Medicare	38%	31%
Medicaid	7	12
Blue Cross	16	22
Commercial and other	19	20
Self-pay	<u>20</u>	<u>15</u>
	<u>100%</u>	<u>100%</u>

NOTE O - MEDICAL MALPRACTICE INSURANCE

The Medical Center is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Medical Center is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against the Medical Center for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. The policy provided by the independent insurance carrier provides for umbrella liability in excess of the underlying limits set forth above in the amount of \$5,000,000 per occurrence with an aggregate amount in any policy year of \$5,000,000. All coverage is on a claims-made basis. The above policies were renewed on January 1, 2018, for the policy period from January 1, 2018 to January 1, 2019. Management believes that any claims asserted for incidents occurring through December 31, 2017, would be settled within the limits of insurance coverage.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE P - CONDENSED COMBINING INFORMATION

Condensed financial data for the Medical Center and its blended component units as of and for the year ended December 31, 2017, are presented in the following tables:

	<u>Medical Center</u>	<u>Component units</u>	<u>Eliminations</u>	<u>Combined</u>
Assets				
Current assets	\$ 25,323,167	\$ 333,046	\$ -	\$ 25,656,213
Capital assets	37,765,759	933,452		38,699,211
Other assets	16	407,161		407,177
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 63,088,942</u>	<u>\$ 1,673,659</u>	<u>\$ -</u>	<u>\$ 64,762,601</u>
Liabilities				
Current liabilities	\$ 7,583,178	\$ 179,907	\$ -	\$ 7,763,085
Noncurrent liabilities	22,852,504	685,400		23,537,904
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>30,435,682</u>	<u>865,307</u>	<u>-</u>	<u>31,300,989</u>
Net position				
Invested in capital assets net of related debt	13,031,049			13,031,049
Restricted for debt service	397,275			397,275
Restricted for component units		808,352		808,352
Unrestricted	19,224,936			19,224,936
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total net position	<u>32,653,260</u>	<u>808,352</u>	<u>-</u>	<u>33,461,612</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and net position	<u>\$ 63,088,942</u>	<u>\$ 1,673,659</u>	<u>\$ -</u>	<u>\$ 64,762,601</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE P - CONDENSED COMBINING INFORMATION - Continued

	<u>Medical Center</u>	<u>Component units</u>	<u>Eliminations</u>	<u>Combined</u>
Operating revenues				
Net patient service revenue	\$ 51,559,977	\$ -	\$ -	\$ 51,559,977
Other	784,404	63,190		847,594
Electronic health records incentive revenue	11,568			11,568
Total operating revenues	52,355,949	63,190	-	52,419,139
Operating expenses				
Salaries and wages	23,908,268			23,908,268
Employee benefits	5,396,824			5,396,824
Supplies and other expenses	20,615,669	28,754		20,644,423
Depreciation and amortization	5,234,594	49,314		5,283,908
Total operating expenses	55,155,355	78,068	-	55,233,423
Operating loss	(2,799,406)	(14,878)	-	(2,814,284)
Nonoperating revenues (expenses)				
Investment income	233,888	2,291		236,179
Interest expense	(750,052)	(4,643)		(754,695)
Ambulance subsidy	780,350			780,350
Noncapital grants and contributions	8,112	337,423		345,535
Other	18,693	(1,027,853)	877,965	(131,195)
Total nonoperating revenues (expenses)	290,991	(692,782)	877,965	476,174
Revenues over (under) expenses before capital grants and contributions	(2,508,415)	(707,660)	877,965	(2,338,110)
Capital grants and contributions	692,384	437,524	(877,965)	251,943
Change in net position	(1,816,031)	(270,136)	-	(2,086,167)
Net position beginning of year	34,469,291	1,078,488		35,547,779
Net position end of year	\$ 32,653,260	\$ 808,352	\$ -	\$ 33,461,612

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE P - CONDENSED COMBINING INFORMATION - Continued

	<u>Medical Center</u>	<u>Component units</u>	<u>Eliminations</u>	<u>Combined</u>
Net cash provided (used) by				
Operating activities	\$ 3,804,203	\$ 204,818	\$ -	\$ 4,009,021
Noncapital financing activities	807,155	(690,430)	877,965	994,690
Capital and related financing activities	(5,763,000)	234,145	(877,965)	(6,406,820)
Investing activities	<u>234,762</u>	<u>487,643</u>	<u>1,183</u>	<u>723,588</u>
Net change in cash and cash equivalents	(916,880)	236,176	1,183	(679,521)
Cash and cash equivalents at beginning of year	<u>15,041,231</u>	<u>96,650</u>	<u>-</u>	<u>15,137,881</u>
Cash and cash equivalents at end of year	<u>\$ 14,124,351</u>	<u>\$ 332,826</u>	<u>\$ 1,183</u>	<u>\$ 14,458,360</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE P - CONDENSED COMBINING INFORMATION - Continued

Condensed financial data for the Medical Center and its blended component units as of and for the year ended December 31, 2016, are presented in the following tables:

	<u>Medical Center</u>	<u>Component units</u>	<u>Eliminations</u>	<u>Combined</u>
Assets				
Current assets	\$ 25,536,538	\$ 497,431	\$ -	\$ 26,033,969
Capital assets	36,601,014	773,661		37,374,675
Other assets	1,999,888	491,932		2,491,820
Total assets	<u>\$ 64,137,440</u>	<u>\$ 1,763,024</u>	<u>\$ -</u>	<u>\$ 65,900,464</u>
Liabilities				
Current liabilities	\$ 7,697,022	\$ 169,906	\$ -	\$ 7,866,928
Noncurrent liabilities	21,971,127	514,630		22,485,757
Total liabilities	<u>29,668,149</u>	<u>684,536</u>	<u>-</u>	<u>30,352,685</u>
Net position				
Invested in capital assets net of related debt	12,255,600			12,255,600
Restricted for debt service	398,458			398,458
Restricted for component units		1,078,488		1,078,488
Unrestricted	21,815,233			21,815,233
Total net position	<u>34,469,291</u>	<u>1,078,488</u>	<u>-</u>	<u>35,547,779</u>
Total liabilities and net position	<u>\$ 64,137,440</u>	<u>\$ 1,763,024</u>	<u>\$ -</u>	<u>\$ 65,900,464</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE P - CONDENSED COMBINING INFORMATION - Continued

	<u>Medical Center</u>	<u>Component units</u>	<u>Eliminations</u>	<u>Combined</u>
Operating revenues				
Net patient service revenue	\$ 50,376,306	\$ -	\$ -	\$ 50,376,306
Other	855,455	31,458		886,913
Electronic health records incentive revenue	1,763,556			1,763,556
Total operating revenues	52,995,317	31,458	-	53,026,775
Operating expenses				
Salaries and wages	21,811,909	54,622		21,866,531
Employee benefits	4,983,576			4,983,576
Supplies and other expenses	20,982,792	15,671		20,998,463
Depreciation and amortization	4,247,200	27,410		4,274,610
Total operating expenses	52,025,477	97,703	-	52,123,180
Operating loss	969,840	(66,245)	-	903,595
Nonoperating revenues (expenses)				
Investment income	211,142	20,168		231,310
Interest expense	(536,632)			(536,632)
Ambulance subsidy	294,850			294,850
Noncapital grants and contributions	8,918	71,882		80,800
Other	999	(238,966)	133,548	(104,419)
Total nonoperating revenues (expenses)	(20,723)	(146,916)	133,548	(34,091)
Revenues over (under) expenses before capital grants and contributions	949,117	(213,161)	133,548	869,504
Capital grants and contributions	50,844	419,484	(133,548)	336,780
Change in net position	999,961	206,323	-	1,206,284
Net position beginning of year	33,469,330	872,165		34,341,495
Net position end of year	\$ 34,469,291	\$ 1,078,488	\$ -	\$ 35,547,779

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE P - CONDENSED COMBINING INFORMATION - Continued

	<u>Medical Center</u>	<u>Component units</u>	<u>Eliminations</u>	<u>Combined</u>
Net cash provided (used) by				
Operating activities	\$ 2,559,603	\$ 116,078	\$ 33,035	\$ 2,708,716
Noncapital financing activities	304,767	(167,084)	133,548	271,231
Capital and related financing activities	(5,869,676)	245,107	(166,583)	(5,791,152)
Investing activities	<u>216,200</u>	<u>(120,925)</u>		<u>95,275</u>
Net change in cash and cash equivalents	(2,789,106)	73,176	-	(2,715,930)
Cash and cash equivalents at beginning of year	<u>17,830,337</u>	<u>23,474</u>	<u>-</u>	<u>17,853,811</u>
Cash and cash equivalents at end of year	<u>\$ 15,041,231</u>	<u>\$ 96,650</u>	<u>\$ -</u>	<u>\$ 15,137,881</u>